le château

ANNUAL REPORT 2000


le château

CORPORATE PROFILE

Le Château is a leading retailer of moderately priced apparel, accessories and footwear aimed at young spirited, fashion-conscious men, women and tweens. Our brand's success results from strengths in design, product development and vertical integration. Our customers are predominantly in the 15-25 year old age group, while our *JUNIOR GIRL* division targets the 8-14 year old segment.

Le Château brand name clothing is sold through our 161 retail stores – which average 3,000 square feet in size. All stores are in Canada, except for five in the United States.

Le Château, committed to research, design and product development, manufactures approximately 65% of the Company's goods in its own Canadian production facilities.

LE CHÂTEAU STORES AND SQUARE FOOTAGE

(excluding franchised outlet stores)

	January 27, 2001		January 29, 2000	
	Stores	**Square Footage**	Stores	Square Footage
Ontario	**52**	**196,858**	54	201,615
Quebec	**43**	**173,112**	44	179,655
British Columbia	**22**	**66,600**	23	68,268
Alberta	**18**	**64,730**	15	53,623
Manitoba	**6**	**27,951**	6	27,951
Nova Scotia	**6**	**12,669**	6	12,669
New Brunswick	**4**	**12,454**	4	12,454
Saskatchewan	**4**	**13,209**	4	13,209
Newfoundland	**1**	**2,500**	–	–
Total Canada	**156**	**570,083**	156	569,444
Total United States	**5**	**28,900**	3	16,416
Total Le Château Stores	**161**	**598,983**	159	585,860

FINANCIAL HIGHLIGHTS

Fiscal years ended (in thousands of dollars except per share data)	Jan. 27, 2001 $	Jan. 29, 2000 $	Jan. 30, 1999 $	Jan. 31, 1998 (53 wks.) $	Jan. 25, 1997 $
Results					
Sales	**161,120**	168,666	160,921	150,241	134,488
Earnings (loss) before income taxes	**(4,346)**	9,019	10,035	9,206	4,570
Net earnings (loss)	**(2,607)**	5,269	5,870	5,368	2,618
• Per share	**(0.53)**	1.07	1.20	1.15	0.57
Dividends per share	**0.40**	0.40	0.40	0.30	0.30
Average number of shares outstanding (000)	**4,935**	4,925	4,871	4,669	4,561
Financial Position					
Working capital	**13,804**	19,585	21,780	22,451	19,849
Shareholders' equity	**45,800**	50,380	46,827	42,542	37,249
Total assets	**68,189**	68,624	66,872	65,007	55,644
Financial Ratios					
Current ratio	**1.89:1**	2.41:1	2.55:1	2.51:1	2.59:1
Quick ratio	**0.46:1**	0.94:1	1.34:1	1.57:1	1.47:1
Long-term debt to equity[1]	**0.13:1**	0.08:1	0.13:1	0.17:1	0.13:1
Other Statistics (units as specified)					
Cash flow from operations	**4,394**	12,048	11,059	10,106	6,851
Capital expenditures	**10,379**	10,628	8,822	9,622	6,195
Number of stores at year-end[2]	**161**	159	146	143	141
Square footage[2]	**598,983**	585,860	542,642	523,750	514,631
Sales per square foot[3]	**292**	322	323	310	273

(1) Including capital leases and current portion of debt. Excluding deferred lease inducements.
(2) Excluding franchised outlet stores.
(3) Excluding Le Château outlet stores and franchised outlet stores.

SHAREHOLDERS' INFORMATION

Ticker symbol: CTU.A

Listing: TSE

Number of participating shares outstanding (as of May 11, 2001)

1,915,291 Class A Subordinate Voting Shares

3,020,000 Class B Voting Shares

Float

1,617,361 Class A Shares held by the public

High/low of Class A Shares
(12 months ended May 11, 2001):
$ 6.00 / $ 2.10

Recent price (May 11, 2001):	$ 4.10
Dividend yield (May 11, 2001):	9.8%
Loss per share:	$ (0.53)
Price/earnings ratio:	N/A
Book value per share:	$ 9.28
Price/book value ratio:	0.44X

MESSAGE TO SHAREHOLDERS

Our fiscal 2000 loss was unacceptable to management, and clearly indicates that we did not deliver the goods our customers wanted. The good news is that business has turned around.

The results of the first four months of this year stand in sharp contrast to last year. Total sales were up 15%, and comparable store sales were up 10%. We had problems last year, but current year sales demonstrate that these were fixable, and that we fixed them. Le Château has experienced downturns before in its 41-year history and has always emerged a stronger company. We are doing it again.

What went wrong last year? Management did not respond quickly enough to the increased competition in our industry, which has come along with more demanding customers and a need to execute good ideas more quickly than in the past. The answer, now in place, is faster, more flexible, smarter performance.

We would like to thank our entire team of loyal, innovative and dedicated employees. They bring their enthusiasm and creativity to work every day, and help to make shopping at Le Château a unique, exciting experience.

Herschel H. Segal
Chairman of the Board
and Chief Executive Officer

Jane Silverstone, B.A.LLL
Vice-Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results

(in thousands of dollars except per share amounts)

	2000 $	1999 $	1998 $
Sales	**161,120**	168,666	160,921
Earnings (loss) before income taxes	**(4,346)**	9,019	10,035
Provision for income taxes (recovered)	**(1,739)**	3,750	4,165
Net earnings (loss)	**(2,607)**	5,269	5,870
Net earnings (loss) per share	**(0.53)**	1.07	1.20
Cash flow from operations	**4,394**	12,048	11,059
Comparable store sales (decrease) increase %	**(9.2)%**	1.0%	5.2%
Square footage of gross store space at year-end	**598,983**	585,860	542,642
Sales per average square foot, excluding fashion outlet stores (in dollars)	**292**	322	323

Sales

Sales decreased 4.5% to $161.1 million in fiscal 2000, due primarily to a decrease in comparable store sales of 9.2%, but partially offset by the increase in retail selling space.

Sales per average square foot of retail space – excluding fashion outlets – decreased to $292 from $322 in 1999.

Total Sales by Division

(in thousands of dollars)

	2000 $	1999 $	1998 $	% Change 2000-99	 1999-98
Ladies' clothing	**101,522**	106,708	100,152	**(4.9)**	6.5
Men's clothing	**17,958**	19,071	16,253	**(5.8)**	17.3
JUNIOR GIRL clothing	**14,598**	11,824	10,974	**23.5**	7.7
Footwear	**13,489**	14,638	15,409	**(7.8)**	(5.0)
Accessories	**12,962**	15,269	14,393	**(15.1)**	6.1
Wholesale	**591**	1,156	3,740	**(48.9)**	(69.1)
	161,120	168,666	160,921	**(4.5)**	4.8

The *JUNIOR GIRL* clothing division, which recorded a 23.5% sales increase in 2000, accounted for 9.1% of total retail sales compared to 7.0% the previous year. The Company's main revenue driver, the Ladies' clothing division, suffered a 4.9% decline in sales. Revenues in the accessories, footwear and Men's clothing divisions were also down 15.1%, 7.8% and 5.8%, respectively in 2000.

Total Sales by Region

(in thousands of dollars)

	2000 $	1999 $	1998 $	% Change 2000-99	% Change 1999-98
Ontario	**56,787**	61,490	57,240	**(7.6)**	7.4
Quebec	**39,762**	43,495	43,234	**(8.6)**	0.6
Prairies	**25,360**	24,795	22,232	**2.3**	11.5
British Columbia	**21,526**	22,479	20,239	**(4.2)**	11.1
Atlantic	**6,792**	6,956	6,323	**(2.4)**	10.0
United States	**10,302**	8,295	7,913	**24.2**	4.8
Wholesale	**591**	1,156	3,740	**(48.9)**	(69.1)
	161,120	168,666	160,921	**(4.5)**	4.8

The strongest growth in total sales came from the United States due to the opening of two new stores, bringing the total number of stores in the New York City area to five. Comparable store sales in this region were flat compared to last year.

All regions in Canada experienced a decrease in same store sales with declines of 10.4% in Quebec, 9.2% in Ontario, 9.4% in the Western provinces and 11.3% in the Atlantic provinces.

During the year, Le Château opened 6 stores in Canada and 2 in the United States. In addition, the Company renovated 13 stores and closed 6 non-performing stores. As at January 27, 2001, the Company operated 161 stores (including 7 fashion outlet stores) compared to 159 at the end of the previous year. Total floor space at the end of the year was 598,983 square feet compared to 585,860 square feet at the end of the preceding year.

Expenses

Cost of sales, buying and occupancy, as a percentage of sales, increased to 69.5% from 64.2% in 1999, primarily attributable to higher markdowns. In addition, an increase in occupancy costs as a percentage of sales resulted from the 9.2% decrease in comparable store sales.

Selling, general and administrative expenses, as a percentage of sales, increased to 28.5% in 2000 from 26.4% in 1999.

Interest expense increased from $466,000 in 1999 to $787,000 in 2000, due to drawing upon the Company's operating lines of credit and due to new long-term financing of $6.0 million, which was used towards financing the Company's capital expenditures of $10.4 million.

Depreciation and amortization rose to $6.4 million from $5.8 million in 1999, due to the additional investments in fixed assets.

The $1.7 million provision for income taxes recovered in 2000 represents an effective income tax rate of 40.0%, compared to 41.6% for the previous year. Effective January 30, 2000, the Company adopted the new Recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for income taxes. The Company elected not to restate prior years' financial statements as it determined that the adoption of this standard does not have a material impact on the Company's financial position or results of operations in the current or preceding years.

Earnings

Earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased to $2.9 million or $0.58 per share in 2000, from $15.3 million or $3.11 per share in 1999. Net loss totaled $2.6 million or $0.53 per share in 2000 compared to net earnings of $5.3 million or $1.07 per share recorded in 1999.

In the U.S., loss before income taxes, depreciation and amortization decreased to $53,000 in 2000, from earnings before income taxes, depreciation and amortization of $507,000 in 1999. Net loss amounted to $502,000 compared to net earnings of $202,000 in 1999. The deteriorating general economic conditions in the latter part of the year along with new store openings costs adversely impacted earnings in the U.S.

Dividends

In 2000, Le Château continued – for the seventh consecutive year – its policy of paying quarterly dividends on the Class A Subordinate Voting and Class B Voting Shares. Total dividends per Class A and Class B share amounted to $0.10 per quarter or $0.40 in 2000. Dividend yield – based on the May 11, 2001 closing price of $4.10 per share – was 9.8%.

Liquidity and Capital Resources

Cash flow from operations decreased to $4.4 million or $0.89 per share in 2000, compared to $12.1 million or $2.45 per share the previous year, mainly as a result of lower net earnings.

Cash provided by operating activities (including net changes in non-cash working capital balances) decreased to $2.8 million from $6.5 million in 1999. Cash provided by operating and financing activities was used in the following financing and investing activities:

- Capital expenditures of $10.4 million, consisting of:

Capital Expenditures

(in thousands of dollars)	**2000** $	1999 $	1998 $
New Stores (8 stores; 1999 - 13 stores; 1998 - 8 stores)	**4,526**	2,653	1,173
Renovated Stores (13 stores; 1999 - 14 stores; 1998 - 15 stores)	**3,948**	5,644	4,325
Information Technology	**1,025**	2,144	2,642
Other	**880**	187	682
	10,379	10,628	8,822

Of the $10.4 million in total capital expenditures, $7.5 million was attributed to Canadian operations, and $2.9 million to the U.S.

- Dividend payments of $2.0 million
- Capital lease and long-term debt repayments of $3.9 million

The Company's net cash position decreased from $10.1 million or $2.04 per share in 1999 to $3.1 million or $0.62 per share in 2000.

Financial Position

Working capital stood at $13.8 million at the end of the fiscal year, compared to $19.6 million at the end of 1999. The decrease in working capital is mainly due to the use of cash from operations to fund certain capital expenditures.

Inventories increased to $22.1 million this year, up from $20.4 million a year earlier, due primarily to an additional $1.5 million of goods in transit inventory as compared to the previous year.

Shareholders' equity decreased to $45.8 million at year-end, after the payment of $2.0 million in dividends. Book value per share decreased to $9.28 at year-end, compared to $10.21 as at January 29, 2000, and included $0.62 in cash and cash equivalents.

Long-term debt and capital lease obligations, including the current portions, increased to $6.0 million from $3.9 million in 1999. The long-term debt to equity ratio remained conservative at 0.13:1, compared to 0.08:1 the previous year.

Projected capital expenditures for fiscal 2001-2002 approximates $5.0 million, of which $4.0 million will be used for the opening of 2 to 4 new stores and the renovation of 8 to 10 existing stores. In addition, in view of the Company's continual efforts to improve buying efficiency and customer service, approximately $1.0 million will be invested in information technology.

Management expects to be able to continue financing the Company's activities and most of its capital expenditures through cash flow from operations. If necessary, it can also draw upon its financial resources, which include cash and cash equivalents of $3.1 million at year-end, as well as a revolving line of credit of $11.0 million with its bank. Part of the projected capital expenditures could also be financed through long-term debt.

Risks and Uncertainties

Competitive Environment

Fashion is a highly competitive global business that is subject to rapidly changing consumer demands. Growth in the retail fashion industry is dependent on positive economic indicators including consumer confidence.

The unprecedented level of competition coupled with the high level of customer awareness increases the necessity of exceeding the customer's expectations by offering the product they want, at the value price they want, when they want it. This also intensifies the importance of in-store differentiation and quality of service, thereby delivering a total customer experience.

With this view, we will continue to maintain a distinctive edge through innovation, a dynamic team of employees, exciting store design and quick response to customer demands.

Leases

All of the Company's stores are held under long-term leases, most of which include favorable lease terms. Any increase in retail rental rates would adversely impact the Company.

Foreign Exchange

The Company's foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. From time to time, the Company uses forward contracts to fix the exchange rate on a portion of its expected requirements for U.S. dollars.

Outlook

Le Château expects an improvement in sales and earnings from fiscal 2000 levels. The first four months of fiscal 2001 indicate an increase of 15% in total sales and an increase of 10% in comparable store sales. We will remain focused on our customer and on improving all aspects of our business through ongoing brand-building efforts, better inventory management, tighter cost control and continued investments in research, design and development, renovations and new technologies.

Forward Looking Statements

A number of matters discussed in this "Management's Discussion and Analysis" and elsewhere in the Annual Report that are not historical or current facts deal with potential future circumstances and developments. The discussion of such matters is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience involving any one or more of such matters.


JUNIOR
GIRL
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of **Le Château Inc.** [formerly Château Stores of Canada Ltd.] and all the information in this annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit Committee which consists of three outside directors appointed by the Board. The Committee meets annually with management as well as with the independent external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the consolidated financial statements and the external auditors' report thereon and reports its findings to the Board for consideration when the Board approves the financial statements for issuance to the Company's shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The external auditors have full and free access to the Audit Committee.

On behalf of the shareholders, the financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards.

Herschel H. Segal
Chairman of the Board and
Chief Executive Officer

Emilia Di Raddo, CA
President and Secretary

AUDITORS' REPORT

To the Shareholders of **Le Château Inc.**

We have audited the consolidated balance sheets of **Le Château Inc.** [formerly Château Stores of Canada Ltd.], as at January 27, 2001 and January 29, 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 27, 2001 and January 29, 2000 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Montreal, Canada,
March 23, 2001

Ernst & Young LLP
Chartered Accountants

Le Château Inc.
Incorporated under the Canada Business Corporations Act

CONSOLIDATED BALANCE SHEETS

As at January 27, 2001
[With comparative figures as at January 29, 2000]
[In thousands of dollars]

	2001 $	2000 $
ASSETS		
Current		
Cash and cash equivalents	3,072	10,090
Accounts receivable and prepaid expenses	1,679	2,215
Income taxes refundable	2,427	761
Inventories *[note 3]*	22,123	20,362
Total current assets	29,301	33,428
Loans to director *[note 4]*	686	686
Fixed assets *[note 5]*	38,202	34,510
	68,189	68,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11]*	12,027	10,719
Dividend payable	494	494
Current portion of capital lease obligations *[note 6]*	1,976	1,738
Current portion of long-term debt *[note 7]*	1,000	892
Total current liabilities	15,497	13,843
Capital lease obligations *[note 6]*	1,914	996
Long-term debt *[note 7]*	1,112	226
Future income taxes *[note 9]*	1,469	800
Deferred lease inducements	2,397	2,379
Total liabilities	22,389	18,244
Shareholders' equity		
Capital stock *[note 8]*	13,428	13,427
Retained earnings	32,372	36,953
Total shareholders' equity	45,800	50,380
	68,189	68,624

See accompanying notes

On behalf of the Board:

Herschel H. Segal
Director

Jane Silverstone, B.A.LLL
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended January 27, 2001
[With comparative figures for the year ended January 29, 2000]
[In thousands of dollars]

	2001 $	2000 $
Balance, beginning of year	36,953	33,658
Net earnings (loss)	(2,607)	5,269
	34,346	38,927
Dividends	1,974	1,974
Balance, end of year	32,372	36,953

See accompanying notes

CONSOLIDATED STATEMENTS OF EARNINGS

Year ended January 27, 2001
[With comparative figures for the year ended January 29, 2000]
[In thousands of dollars]

	2001 $	2000 $
Sales	161,120	168,666
Cost of sales and expenses		
Cost of sales, buying and occupancy	112,035	108,234
Selling, general and administrative	45,957	44,577
Interest	787	466
Depreciation and amortization	6,426	5,809
Write-off of fixed assets	261	561
	165,466	159,647
Earnings (loss) before income taxes	(4,346)	9,019
Provision for income taxes (recovered) *[note 9]*	(1,739)	3,750
Net earnings (loss)	(2,607)	5,269
Net earnings (loss) per share *[note 10]*		
Basic	(0.53)	1.07
Fully diluted	(0.53)	1.02
Average number of shares outstanding	4,935,248	4,924,680

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended January 27, 2001
[With comparative figures for the year ended January 29, 2000]
[In thousands of dollars]

	2001 $	2000 $
OPERATING ACTIVITIES		
Net earnings (loss)	(2,607)	5,269
Adjustments to determine net cash from operating activities		
Depreciation and amortization	6,426	5,809
Write-off of fixed assets	261	561
Amortization of deferred lease inducements	(355)	(306)
Future income taxes	669	715
	4,394	12,048
Net change in non-cash working capital items related to operations *[note 14]*	(1,583)	(5,501)
Cash flows from operating activities	2,811	6,547
FINANCING ACTIVITIES		
Proceeds of capital leases	3,778	–
Retirement of capital lease obligations	(2,622)	(1,382)
Proceeds of long-term debt	2,248	–
Retirement of long-term debt	(1,254)	(833)
Deferred lease inducements	373	732
Issue of capital stock	1	258
Dividends paid	(1,974)	(1,969)
Cash flows from financing activities	550	(3,194)
INVESTING ACTIVITIES		
Additions to fixed assets	(10,379)	(10,628)
Cash flows from investing activities	(10,379)	(10,628)
Decrease in cash and cash equivalents	(7,018)	(7,275)
Cash and cash equivalents, beginning of year	10,090	17,365
Cash and cash equivalents, end of year	3,072	10,090
Supplementary information:		
Interest paid during the year	787	466
Income taxes paid during the year, net	(606)	4,066

See accompanying notes

1. ACCOUNTING POLICIES

Name change
Effective April 7, 2000, the board of directors agreed to amend the articles of the corporation to change its corporate name to Le Château Inc.

Use of estimates
The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in Management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Principles of consolidation
The consolidated financial statements include the accounts of Le Château Inc. and its wholly owned subsidiary.

Foreign currency translation
Transactions denominated in foreign currencies and integrated foreign operations:

Monetary assets and liabilities are translated into Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the transaction dates. Revenues and expenses are translated at the average exchange rates prevailing during the year, except for the cost of inventory used and depreciation and amortization, which are translated at exchange rates prevailing when the related assets were acquired. Gains and losses arising from the fluctuations in exchange rates are reflected in earnings.

Cash and cash equivalents
Cash consists of cash on hand and balances with banks. Cash equivalents are restricted to investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have a maturity of three months or less at acquisition.

Inventories
Raw materials and work-in-process are valued at the lower of cost and net realizable value. Finished goods are valued, using the retail inventory method, at the lower of cost and net realizable value less normal profit margin.

Fixed assets, depreciation and amortization
All fixed assets are recorded at cost. Depreciation and amortization are charged to income on the following bases:

Building	10% diminishing balance
Furniture and equipment	5 to 10 years straight-line
Automobiles	30% diminishing balance

Leasehold rights and improvements are amortized on the straight-line basis over the initial term of the leases, plus one renewal period.

Deferred lease inducements
Deferred lease inducements are amortized on the straight-line basis over the initial term of the leases, plus one renewal period.

Stock-based compensation plan
The Company has a stock-based compensation plan which is described in Note 8. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options canceled is charged to retained earnings.

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

1. ACCOUNTING POLICIES *[Cont'd]*

Store opening expenses

Store opening expenses are written off as incurred.

Adoption of new accounting standards for income taxes

Effective January 30, 2000, the Company adopted the new Recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for income taxes. Under this new accounting policy, applied retroactively, future income taxes reflect the tax effect of differences between the book and tax basis of assets and liabilities. Future income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those assets or liabilities are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets are recognized if realization is considered "more likely than not". Previously, deferred income taxes reflected the tax effect of revenue and expense items reported for accounting purposes in periods different than for tax purposes. The Company elected not to restate prior years' financial statements as it determined that the adoption of this standard does not have a material impact on the Company's financial position or results of operations in the current or preceding years.

2. CREDIT FACILITY

The Company has operating lines of credit totaling $11 million, which are collateralized by the Company's accounts receivable, inventories, the issued shares of a subsidiary company and a moveable hypothec providing a charge on the Company's assets. This credit agreement is renewable annually. Amounts drawn under these lines of credit are payable on demand and bear interest at rates based on the prime bank rate for loans in Canadian dollars, U.S. base rate for loans in U.S. dollars and B.A. plus 1% for banker's acceptances in Canadian dollars. Furthermore, the terms of the banking agreement require the Company to maintain certain financial ratios.

3. INVENTORIES

	January 27, 2001 $	January 29, 2000 $
Raw materials	**4,188**	4,459
Work-in-process	**1,310**	1,403
Finished goods	**16,625**	14,500
	22,123	20,362

4. LOANS TO DIRECTOR

The loans are non-interest bearing and were issued under the stock purchase plan.

As at January 27, 2001, the shares held by the Company as security for the loans have a market value of $232,000 [2000 – $537,000]. The loans are due over the period 2003 to 2005, subject to earlier repayment on the termination of employment or the disposition of the director's shares. The fair value of the loans is not determinable.

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

5. FIXED ASSETS

	Cost $	Accumulated depreciation and amortization $	Net book value $
January 27, 2001			
Land and building	972	368	604
Leasehold rights and improvements	22,489	7,813	14,676
Point-of-sale cash registers and computer equipment	8,133	2,556	5,577
Other furniture and fixtures	26,609	9,306	17,303
Automobiles	179	137	42
	58,382	20,180	38,202
January 29, 2000			
Land and building	536	330	206
Leasehold rights and improvements	19,616	6,808	12,808
Point-of-sale cash registers and computer equipment	11,630	5,497	6,133
Other furniture and fixtures	23,784	8,487	15,297
Automobiles	221	155	66
	55,787	21,277	34,510

An amount of $7,543,000 [2000 – $8,887,000] of the fixed assets is held under capital leases. Accumulated depreciation relating to these fixed assets amounts to $2,028,000 [2000 – $4,031,000].

6. CAPITAL LEASE OBLIGATIONS

The future minimum lease payments required under the capital lease agreements are as follows:

	$
2002	2,205
2003	1,445
2004	581
Total minimum lease payments	4,231
Amount representing interest at rates varying between 7% and 9%	341
	3,890
Less: current portion	1,976
	1,914

The fair value of fixed rate capital leases is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Company's bankers. The fair value of these capital leases approximates the carrying value.

7. LONG-TERM DEBT

	January 27, 2001 $	January 29, 2000 $
7.9% Specific Security Agreement ["the Loan"], maturing April 15, 2001	226	1,085
8.77% Specific Security Agreement ["the Loan"], maturing November 26, 2003	1,886	–
Other	–	33
	2,112	1,118
Less: current portion	1,000	892
	1,112	226

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

7. LONG-TERM DEBT *(Cont'd)*

The Loan is collateralized by all of the fixed assets acquired with the proceeds of the Loan, as specified in the Loan agreement.

Principal repayments are due in the following fiscal years:

	$
2002	1,000
2003	666
2004	446
	2,112

The fair values of the loans described above approximate their carrying value.

8. CAPITAL STOCK

Authorized

An unlimited number of non-voting First, Second and Third Preferred Shares issuable in series

An unlimited number of Class A Subordinate Voting Shares

An unlimited number of Class B Voting Shares

Issued	January 27, 2001 $	January 29, 2000 $
1,915,291 Class A Shares [2000 - 1,915,091]	**12,364**	12,363
3,020,000 Class B Shares	**1,064**	1,064
	13,428	13,427

During the year ended January 27, 2001, the Company issued 200 [2000 - 42,220] Class A Shares under the stock option plan for $1,000 [2000 - $257,361].

Principal features

[a] With respect to the payment of dividends and the return of capital, the shares rank as follows:

First Preferred
Second Preferred
Third Preferred
Class A and Class B

[b] Subject to the rights of the Preferred shareholders, the Class A shareholders are entitled to a non-cumulative preferential dividend of $0.05 per share, after which the Class B shareholders are entitled to a non-cumulative dividend of $0.05 per share; any further dividends declared in a fiscal year must be declared and paid in equal amounts per share on all the Class A and Class B Shares then outstanding without preference or distinction.

[c] Subject to the foregoing, the Class A and Class B Shares rank equally, share for share, in earnings.

[d] The Class A Shares carry one vote per share and the Class B Shares carry 10 votes per share.

[e] The Class A Shares are convertible into Class B Shares on a share-for-share basis if the parent company ceases to control the Company, or if an offer is accepted to sell more than 20% of the then outstanding Class B Shares at a price in excess of 115% of their market price. The Class B Shares are convertible into Class A Shares at any time on a share-for-share basis.

Stock option plan

Under the provisions of the stock option plan, the Company may grant options to key employees and directors to purchase Class A Shares. The plan, which was amended on May 28, 1997 and on April 7, 2000, provides that the maximum number of shares

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

8. CAPITAL STOCK *[Cont'd]*

Stock option plan *[Cont'd]*
which may be issued thereunder from and after May 28, 1997 is 1,000,000 Class A Shares. The option price may not be less than the closing price for the Class A Shares on the Toronto Stock Exchange on the last business day before the date on which the option is granted. The stock options may be exercised by the holder progressively over a period of 5 years from the date of granting. Since May 28, 1997, 339,000 options have been exercised.

A summary of the status of the Company's stock option plan as of January 27, 2001 and January 29, 2000, and changes during the years ending on these dates is presented below:

	January 27, 2001		January 29, 2000	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding at beginning of year	346,700	7.35	304,020	6.99
Granted	214,000	2.41	103,200	7.83
Exercised	200	5.00	42,220	6.10
Cancelled / Expired	19,700	6.05	18,300	6.97
Outstanding at end of year	540,800	5.44	346,700	7.35
Options exercisable at end of year	158,864	6.93	84,876	6.95

The following table summarizes information about the stock options outstanding at January 27, 2001.

Range of exercise prices	Number outstanding at January 27, 2001 #	Weighted average remaining life	Weighted average exercise price $	Number of options exercisable at January 27, 2001 #	Weighted average exercise price $
2.25 – 6.49	384,860	3 years	3.93	104,404	5.64
6.50 – 7.99	2,240	1 year	7.60	1,120	7.60
8.00 – 8.99	70,700	3 years	8.26	14,140	8.26
9.00 – 10.17	83,000	2 years	10.03	39,200	9.87
2.25 – 10.17	540,800	3 years	5.44	158,864	6.93

Stock purchase plan
Under the provisions of the stock purchase plan, the Company may grant the right to key employees to subscribe for Class A Shares. The plan, which was amended on May 28, 1997, provides that the maximum number of shares that may be issued thereunder from and after May 28, 1997 is 10,000 Class A Shares. The subscription price may not be less than the closing price for the Class A Shares on the Toronto Stock Exchange on the last business day before the date on which the right to subscribe is granted. Since May 28, 1997, there have been no shares issued under the stock purchase plan.

9. FUTURE INCOME TAXES

As at January 27, 2001, a U.S. subsidiary has accumulated losses amounting to C$12.3 million [US$8.2 million] which expire during the years 2002 to 2014. A full valuation allowance has been taken against the related future income tax asset and accordingly, the tax benefits pertaining to these loss carry-forwards have not been recognized in the financial statements.

The tax effects of the significant components of temporary differences giving rise to the Company's net future income tax liability results from depreciable capital assets.

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

9. FUTURE INCOME TAXES *(Cont'd)*

A reconciliation of income tax average statutory tax rate to the actual effective tax rate is as follows:

	2001 %	2000 %
Average statutory tax rate	**42.1**	40.3
Increase (decrease) in income tax rate resulting from:		
Non-deductible U.S. tax losses	**(4.9)**	–
Change in enacted tax rate	**5.5**	–
Non-deductible items and large corporations tax	**(2.7)**	1.3
Effective tax rate	**40.0**	41.6

10. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of shares outstanding for the year.

Fully diluted earnings per share reflect the dilutive effect of the exercise of the stock options outstanding at the end of the year or those options exercised during the year, as if they had been exercised at the beginning of the year or the date granted, if later. The number of shares used for the calculation of the fully diluted earnings per share is 5,289,671 [2000 – 5,233,478]. Interest on the funds which would have been received had the options been exercised, in the amount of $63,000 [2000 – $60,000] net of income tax, has been imputed at a rate of 4% [2000 – 5%] per annum.

11. COMMITMENTS

The Company has letter of credits available in the amount of $2,440,000 of which $1,120,000 has been accepted at year-end. The letters of credit represent guarantees for payment of purchases from foreign suppliers and the fair value approximates their carrying value.

The minimum rentals payable under long-term operating leases are as follows:

	$
2002	20,564
2003	18,787
2004	17,462
2005	14,256
2006	12,045
Thereafter	29,316
	112,430

Certain of the operating leases provide for additional annual rentals based on store sales and for annual increases in operating charges of the landlord.

12. SEGMENTED INFORMATION

The Company's only operating segment is the retail of apparel, accessories and footwear aimed at young-spirited, fashion-conscious men, women and children.

Segmented information is attributed to geographic areas based on the locations of the Company's stores. The following is a summary of the Company's operations and assets by geographic area:

January 27, 2001 [Tabular amounts in thousands of dollars except per share amounts and where otherwise indicated]

12. SEGMENTED INFORMATION *[Cont'd]*

	January 27, 2001 $	January 29, 2000 $
Sales to customers		
Canada	150,636	160,303
United States	10,484	8,363
	161,120	168,666
Depreciation and amortization		
Canada	5,977	5,504
United States	449	305
	6,426	5,809
Net earnings (loss)		
Canada	(2,105)	5,067
United States	(502)	202
	(2,607)	5,269
Net earnings (loss) per share (basic)		
Canada	(0.43)	1.03
United States	(0.10)	.04
	(0.53)	1.07
Identifiable assets		
Canada	62,194	65,922
United States	5,995	2,702
	68,189	68,624
Capital expenditures		
Canada	7,443	10,533
United States	2,936	95
	10,379	10,628
Fixed assets		
Canada	33,853	32,703
United States	4,349	1,807
	38,202	34,510

13. FINANCIAL INSTRUMENTS

The Company enters into foreign exchange contracts of less than one year for the purchase of foreign currency to hedge anticipated future cash flows in U.S. dollars. As at January 27, 2001, the notional value and the fair value of these contracts amount to approximately $299,000 [2000 – $867,000].

14. CHANGES IN NON-CASH WORKING CAPITAL

The cash generated from (used for) non-cash working capital is made up of changes related to operations in the following accounts.

	2001 $	2000 $
Accounts receivable and prepaid expenses	536	(732)
Income taxes refundable	(1,666)	(988)
Inventories	(1,761)	(3,345)
Accounts payable and accrued liabilities	1,308	(436)
Cash generated from (used for) working capital	(1,583)	(5,501)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Herschel H. Segal
Chairman of the Board
and Chief Executive
Officer of the Company

Jane Silverstone, B.A.LLL
Vice-Chairman
of the Board

Emilia Di Raddo, CA
President and Secretary

Sidney Horn
Partner
Stikeman Elliott

Victor Koloshuk *
Chairman and
Chief Executive Officer
Integrated Asset
Management Corp.

A.H.A. Osborn *
Chief Executive Officer
Alexon Group plc

Herbert E. Siblin, FCA *
President
Siblin & Associates Ltd.

*Member of the Audit Committee

OFFICERS

Herschel H. Segal
Chairman of the Board
and Chief Executive
Officer

Jane Silverstone, B.A.LLL
Vice-Chairman
of the Board

Emilia Di Raddo, CA
President and Secretary

Betty Berliner
Senior Vice-President,
Buying and
Merchandising

Franco Rocchi
Vice-President,
Sales and Operations

HEAD OFFICE

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Web site:
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Auditors
Ernst & Young LLP
Chartered Accountants

**Registrar
and Transfer Agent**
Computershare
Trust Company of Canada

Corporate Counsel
Stikeman Elliott

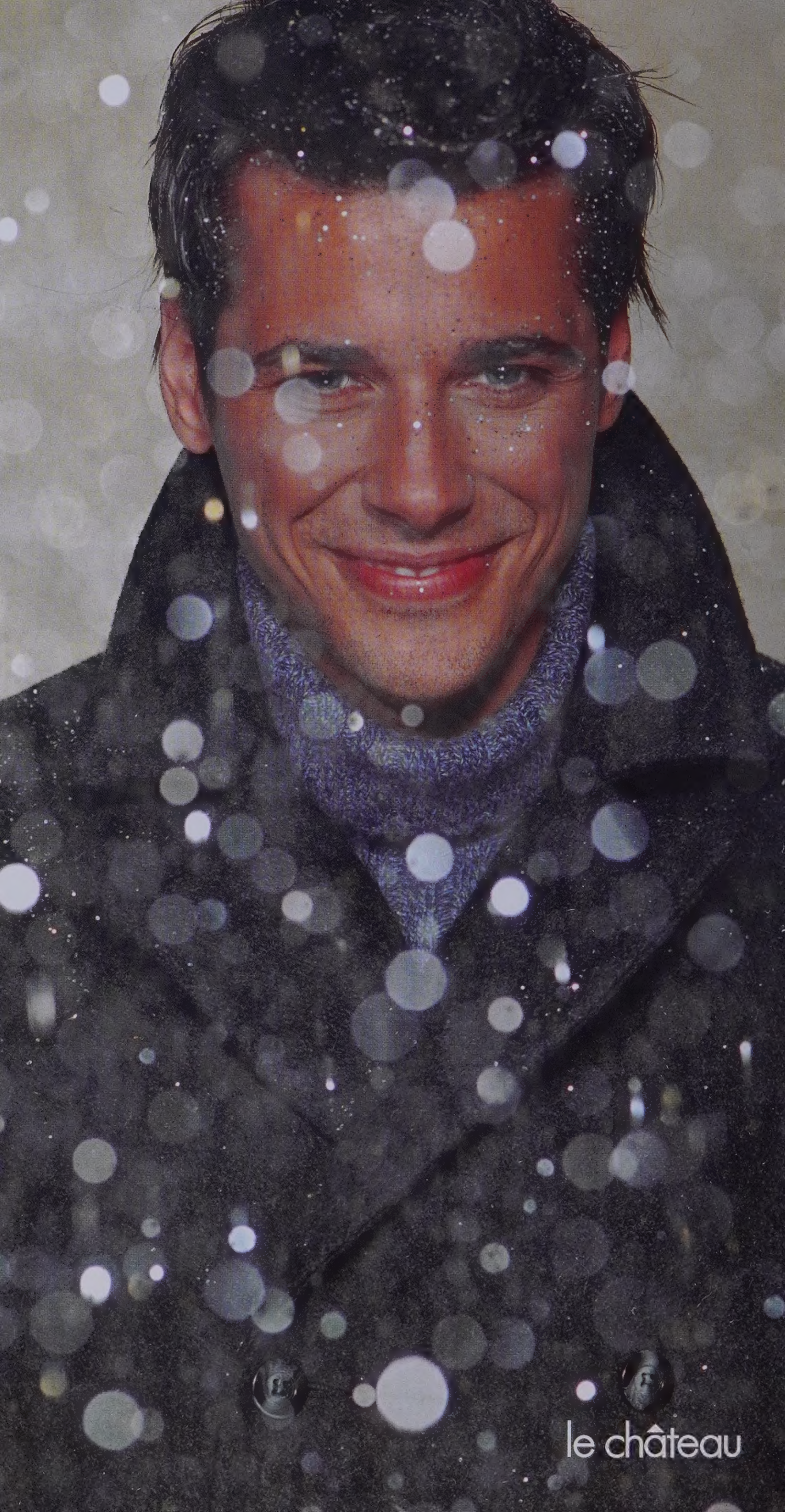
Bankers
Royal Bank of Canada

**Annual Meeting
of Shareholders**
Wednesday, July 4, 2001
at 3:00 p.m. at the
Company's head office

Written and produced by:
Maison Brison Inc.

Pour obtenir la version française de ce rapport s'addresser au siège social.


le château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